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Williams, John E.

Short road to specie-currency

New York

1874

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SHORT ROAD

TO

SPECIE—CURRENCY.

No 19

SHORT ROAD

TO

SPECIE—CURRENCY.

METROPOLITAN NATIONAL BANK,
NEW YORK, May 11th, 1874.

TO HON. JOHN SHERMAN,
Chairman of Finance Committee,
U. S. Senate,

DEAR SIR:

Since last November, when you talked over with me, here, the subject of Banking and Currency, my views, then expressed, have been confirmed and strengthened. Since then, too, the ground has been quite thoroughly gone over by both branches of Congress.

The recent veto of the Senate bill by President Grant, brings up anew, however, the old questions; perhaps, under circumstances more favorable for a calm consideration and wise solution of the whole matter. You know, sir, that in the fire and smoke of battle, we often lose sight of our enemy; so, in the heat and excitement of debate, there is danger that we may lose sight of the original cause of existing differences, and consequently, fail to perceive and apply the wisest remedy.

Will you allow me now, to state my mature convictions on this all-important subject? Take them for what they are worth, intrinsically, not for my sake; and let them perish, if they do not possess vitality enough to deserve favor in public estimation.

In the general discussion of this subject, it has seemed to me, that the public and Congress, have been too much fettered by *precedent*—by clinging to what *has* been—by efforts to patch up old methods—"sewing new cloth into old garments," instead of laying the old garments on the shelf, grateful none the less, for the good they have done, but knowing we had outgrown them—as the man the boy's clothes—and had no further practical use for them. This we have done, in establishing our own form of Government, why not do it in reference to political economy?

Among such useless antiquities, may be classed, "the Suffolk Bank System," so called, which was the most

unmitigated paper-scheme ever devised; under it, millions of bank bills were redeemed without using a dollar of specie! yet that did good service fifty years ago, but is of no use now; and an outgrowth of that—"assorting houses"—still talked of, for the purpose of separating the bills of each Bank from all others, to send home for payment in other paper-promises! And most prominent of all, the vain effort to resume specie payments by Banks, as heretofore, including alike bills and deposits, which always has been, and in the nature of things, always must be, sooner or later, a failure. "Free Banking," too, is a catch-word, and a delusive snare, for it would give too much or too little currency—entirely dependent on the profit in making it—consequently, causing either perturbation or stagnation, both of which should be avoided.

All these belong to the *obsolete*, and time will be saved by so considering them. Let them go.

As to the *cause*, or causes, of the late financial panic, I consider it undeniable and self-evident, that last September, we touched bottom in our currency-supply. If superabundant ten years before, it was proved, to a demonstration, to be used up now. Various circumstances, splendid railroad schemes and other magnificent projects, no doubt, absorbed capital and precipitated the event. But the simple, naked truth remains undeniable, neither for love, nor hard money, itself, could more currency be obtained. There was an absolute currency-famine, and some starved! The United States had undertaken to supply the country but failed to do it; after prohibiting (wisely I think,) the several States from authorizing any bank circulation. This, and this alone, was the original cause and starting point of the panic. Hoarding, locking up in merchants' iron safes, came afterwards, as one of the baneful *effects* of the fright, and it greatly aggravated the excitement. The banks manfully stood by each other, and lessened the disastrous effects by the course they pursued. Two or three months elapsed—the wheels of trade turned slowly, but surely, and the return of currency from the extremes to the money-centres—with the necessary contraction of business engagements—relieved the pressure and restored confidence. But not until serious

consequences had ensued, which, with a sufficient supply of currency, we might have been, we should have been, preserved from.

The foregoing, I think, are among the essentials, and non-essentials, which have occupied much of the time of Congress, while it has been feeling its way towards light on this important investigation. But time spent in earnest thought is never lost. Especially if it fits us to seek a *principle* on which a system may be reared, which shall meet our present wants and stand the strain of any future commercial crisis.

With this view I would suggest:

1st. That Congress assume, at once, the inherent, sovereign prerogative of a Government "of the people, by the people and for the people," and exercise it, by furnishing all the inhabitants of the United States with a uniform National currency! Surely the people, and the people only, have a natural right to all the advantages, emolument or income, that may inure from the issue of either one thousand dollar bonds, with interest, or ten dollar notes without, based on the faith and credit of the Nation! *

This principle, simple, clear and undeniable, ought to be recognized as fundamental, and the only safe and proper basis, on which may securely rest all the circulating medium of the country; for the sole benefit of all the people, and not, as now, for the profit of a class of stockholders, however deserving they may be, in all other respects.

2d. To carry into effect this principle—to substitute U.S. notes for Bank notes—take away, as soon as practicable, and forever, all circulation from banks. Withdraw National Bank notes, and in lieu thereof issue U. S. Coin Notes (not legal tenders), as fast as the Bank notes can be returned to the issue Department at Washington. Such substitution, would of course, be neither contraction nor expansion, but merely putting one note in circulation in place of another; consequently, it could cause no business jar whatever.

Let the United States purchase the bonds—now lodged in Washington, to secure the circulation of Banks—at the market price, or at least a sufficient amount of them, to

* N. B. It is a significant fact, that within ten days, the *London Times* has suggested the same idea—that is that our government furnish a currency for the country.

cover the issue of notes by the United States to the several Banks, for payment of their bonds, to the amount of Bank notes cancelled.

And to facilitate the process, require that at least 25 per cent. of the circulation of each Bank be annually surrendered for exchange and cancellation.

3d. The new notes, and legal tenders, now outstanding, shall be redeemed in specie, on demand, whenever presented at the Assistant Treasurer's Office in New York City. To ensure which, Government shall accumulate (and, if need be, sell 100 million five per cent. bonds to accomplish the purpose) at least one hundred and fifty million dollars in specie, in the vaults of said Assistant Treasurer, and aim to retain that, as a minimum amount, at all times, to inspire confidence and provide for contingencies. Nor need any difficulty be apprehended on this point, as California yielded last year, up to 31st December, seventy-two million two hundred and fifty-eight thousand dollars. Moreover, as soon as the public understand they can have specie for the asking, it will not be wanted. People will prefer to carry U. S. notes in their pockets, as more convenient and equally valuable.

Neither could any one reasonably object, that the United States would be, by such an operation, banking or engaging in business, for, properly regarded, it is as much a function of Government, as the drawing of a Treasury Draft on the Assistant Treasurer, in New York; indeed, practically, it is only that.

4th. To guard against undue issue, on the part of the United States, and to provide in summer, when money is cheap, for a necessary surplus of currency to transact the autumn business, Congress should authorize the emission of a convertible and re-convertible bond, bearing 3, 4, or even 5 per cent. interest. Said bonds to be obtained either of the Assistant U. S. Treasurer, in New York, or of a Commission, appointed to take charge of the same, at the office of said Treasurer, upon paying for them, in either National Bank notes, legal tenders, or U. S. notes. And the bonds should be payable at the office of said Treasurer, with accrued interest, on demand, at the option of the holder.

The effect of this emission of bonds, would be two-fold: first, to check any excessive issue of U. S. notes, as they would at once be taken to the Assistant Treasurer and converted into bonds, thus placing such excess on interest, as fast as the notes became superabundant; secondly, these bonds would take up circulation when cheap—and not wanted for business purposes—and keep it till it was. Then the bonds would be presented for payment and the circulation come out to do its beneficent work, without disturbing the discount lines of the Banks, as the operation would be entirely independent of them. Indeed this machine would act automatically, taking up or letting out currency, according to supply and demand.

Should money be abundant and cheap, 3 per cent. bonds would absorb the surplus; but so important is it to accumulate money in July and August, for September and October, that even 5 per cent. for 60 or 90 days, might well be paid, on 20 or 30 millions, rather than have no adequate provision for the autumnal demands of trade, which come round with the regularity of the season.

5th. Here, an important question naturally arises, namely: What amount of currency is requisite to conduct the enlarged business of a constantly increasing population, dealing in various commodities at enhanced prices?

This question may be practically answered, although mathematical certainty may not be attainable. A commission carefully selected, would be able to reach a satisfactory result in this particular; and also to approximate the per centage of increase of currency that would be required, every five or ten years, to meet the growth in population and business; and thus escape the evil of either deficiency or excess.

For instance, if with a population in 1861, of 33 millions —and banks paying specie—we had a Bank note circulation of 220 millions—and specie in circulation, 170 millions—aggregate, 390 millions—how much would now be required for a population of 43 millions, including demands for manufactures, for mining the precious and other metals, and for railroads, quadrupled in extent in thirteen years? Allowance being also made for advance in prices of from 30 to 50 per cent., in nearly every article bought and sold.

This increase in values is *real* and not nominal. An effect largely owing to an addition of specie since 1848, from Australia and California, to the amount of *two thousand millions in gold and silver!* The commercial exchanges of the civilized world have thus been increased, making gold and silver, and not paper, responsible for the enhanced value of commodities, in all countries, even where there has been no paper used as currency.

Thus it is seen, that no special study of the subject is required to perceive, that double the former volume of currency, say 780 millions, would be none too much for the present day.

Nevertheless, exactness as to amount, is less important than if the proposed U. S. notes were not to be paid, on demand, in specie. That fact, complemented by the convertible bonds, would regulate the amount of the issue of U. S. currency to a nicety never before attained. Especially, as these notes would not be subject to the fluctuations incident to Bank note circulation, for the latter must always be more or less mixed up with the Bank's liability for deposits, and dependent upon the availability of the Bank's discounted paper.

Suppose then, for example, we assume 800 millions as the requisite amount of circulation to-day.

The profits of that, to the people, may be thus stated. Deducting 150 millions, as amount of coin to be kept on hand, would leave a balance of 650 millions net, to draw interest as money. This sum at 6 per cent. would yield a profit of 39 millions annually! Reducing the taxes of all the inhabitants, every year, exactly that amount, compared with what would be the case, if that circulation were given up to Banks.

6th. Undoubtedly there are a few Banks that will raise a cry about vested rights, violated charters, &c., but it is enough to say, to such, that any Bank which cannot live without circulation, must have less of the confidence of the public, as evidenced in deposits, and more of the element on which wild-cat banking subsists, than is compatible with sound commercial Bank management. The truth is, the proposed change is not, in fact, so much of a sacrifice of

profits, as at first sight, it may seem to be. You know that Banks are now required to hold five per cent. bonds, instead of six, as the basis of their circulation; the rate may, probably will, be reduced to four per cent.

Then the Banks would be relieved from all taxes, and reserves, on account of their notes—and here, in New York, these amount to about three per cent. per annum. They would save the premium on U. S. bonds deposited in Washington for circulation. They would escape the clamor of newspapers, and individuals, for resumption of payments in specie. For, then, they would bank on U. S. notes and specie, their customers receiving whichever they preferred. In a word, they would do a strictly legitimate business as Banks of discount and deposit; knowing, that whatever leads to the prosperity of the whole people, must be beneficial to the banks; but leaving the right, where it belongs, to the U. S. Government, to supply the whole circulating medium of the country.

While I speak thus strongly, for the best interest of all, as I understand it, I beg to say, that no one can entertain a higher estimate of the usefulness, the integrity and the honor of Bank managers than I do; and, no one, I believe, knows them better.

Yet, in this connection, we must remember that Banks are the creatures of law. The laws which created them, may, by virtue of rights reserved, be amended, altered, or repealed.

If therefore, it is found, that, as heretofore, and as now, constituted, these institutions, with the best intentions of those who direct them, fail to secure for the people a satisfactory currency; and that even to attempt it, on the old basis, would be to lay themselves open to as frequent suspensions as Wall Street should choose to inflict; then, surely, it is fitting and needful that some better methods be devised and carried out. To those who are disposed to complain of the change as a hardship, one is tempted to ask what *natural* right a dozen stockholders have to receive notes from Government to circulate, that any other dozen men do not posess?

7th. Again, some may say, it is true, we need reform, but if Wall Street is so powerful, as against Banks, why

may it not have equal ability to cause Government to suspend?

The reply to this is plain and conclusive. The cases are essentially different. Whenever Banks have failed, it has always been because of the withdrawal of their deposits, and not that a few thousand dollars were demanded for their bills—not at all—but payment of deposits was demanded, amounting, perhaps, to ten times their circulation, and hence the banks were unable to respond. This has *invariably* been the cause of the several Bank failures. How unwise, then, not to seek a sure and sufficient remedy, after trying seventy-five years to compass the impossible!

Now, inasmuch as the U. S. Government *has no deposits*, and its circulating notes would permeate every corner of this vast country—doing the rightful work of a National currency—therefore, they could not be hoarded—even if the attempt were made—in any quantity sufficient to derange the regular business of the land. They would constitute, so to speak, the life-blood of our commercial and mercantile transactions, circulating to the remotest parts, and equally indispensable at the centre or the circumference. And if, by labor and sacrifice of interest, a sum could be gathered together, what motive would exist to demand specie, when the paper was of equal value with the coin.

Another good result would surely be accomplished. Speculation in gold would be killed stone-dead! and that nuisance abated, most effectually.

8th. The proposed separation of circulation from Banks of discount and deposit, would establish banking proper, on a legitimate basis, and transfer to the General Government, where it belongs, the circulation of the people for the sole benefit of all. The Banks and U. S. Government, both working harmoniously, in their several spheres, with no clashing or rivalry. Indeed, circulation would then be scarcely more divorced from ordinary banking, than now; inasmuch, as U. S. bonds, deposited in Washington, distant from the Banks, now compose the security for the notes, and it is proposed to take the direct promise of the Government in the new U. S. currency.

This principle is recognized and acted on by the Bank of England. That institution has cut off the Issue

from the Discount Department, almost as completely, as if it were another corporation. Why should not we imitate England's example, but improve upon it, by giving to our forty-three millions of inhabitants *all* the profits to be derived from a circulation throughout our country, instead of sharing it with 2,000 Banks, estimated to have some three hundred thousand stockholders?

New England States that have a large accumulation of surplus capital, and a plenty of National Bank currency, may be indifferent, or even opposed, to an increase of currency, of any kind; but Massachusetts and Rhode Island should remember, that notwithstanding all their abundant resources, yet, last September, their mill-operatives were among the first to foresee danger and feel distress, on the stoppage of the factories of their wealthiest manufacturers; mainly, because no currency could be obtained to carry them on! Nor will they soon forget the alarm created by threats to run on the Savings Banks—their very riches and careful savings, even, heightened the danger of a panic among the laborers who had savings-deposits.

This, and every consideration, should teach the East to look with fraternal feeling to the West and the South, if it would aid in relieving a pressure arising from want of capital and currency, there, but which no longer is felt at the East! In truth, the unprecedented and irrepressible growth of the West, in population and productive power, indicates, also, an approaching, if not an existing, political power, that will soon speak to the East in tones distinctly audible.

And now, Mr. Senator, only one word more; if you approve, in the main, of the foregoing suggestions, will you do me the favor to draw a bill, embracing them, substantially, and advocate its passage in the Senate? Providing, that the law take full effect on the Fourth of July, 1876, making, thus, our second and financial declaration of Independence!

Believe me, sir,

Yours, with much respect,

J. E. WILLIAMS.

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